Frank Capital Partners LLC

Frank Value Fund
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FRNKX, FNKCX, FNKIX

Fourth Quarter, 2013

To our fellow shareholders,

The Frank Value Fund Investor Class returned 40.85% in 2013 versus 32.39% for the S&P 500 Total Return Index. Please refer to the end of this letter for more detailed performance information.

One of the running jokes in my family is my mother was a kindergarten teacher for twenty years in order to guarantee that she was always the tallest person in the room. Mom stands four feet, eleven inches tall (1.49m,) which puts her quite below the US average of five feet, four inches (1.62m.) Now that my oldest son is kindergarten age, he often stares up at grandma, marveling at her tall, relative to him, stature. As adults, we chuckle at such a comparison because we have an absolute metric of “tall” in our minds, backed up by our command of numbers. “Relative” valuation investors can fall into the same trance as my five-year-old, whereas the Frank Value Fund overlays “absolute” valuation metrics to remain conservative in all market environments. This is especially helpful today for reducing risk.

Imagine you are at a fruit stand and you saw the following prices: Apples $1000, Oranges $500, Bananas $100. You are likely thinking to yourself, “this is insane, let me get out of here!” Instead of, “wow, bananas are the cheapest thing in the store! I’ll take a bunch.” Bargain hunters in the stock market now face a similar dilemma. We are always able to screen the market for the cheapest 10% of all companies, but at the end of 2013 even this strict relative metric is leaving us with a lot of $100 bananas. Putting these stocks next to baffling valuations like Twitter might make them look cheap, but we have absolute measures of valuation that force us to toss aside companies that at first glance appear to be relatively inexpensive.

In the beginning of the bull market in 2009, almost every company in the stock market met our absolute metrics. Even as late as 2012, about 40% of our universe was cheap on an absolute basis. This wide array of low valuation stocks helps explain the broad market gains since 2009, with active managers struggling to outperform the averages. The case today, however, is starkly different. Less than 10% of our investible universe qualifies for research when confronted with our absolute metrics. Disciplined active managers, in our opinion, are the last refuge of protection in a high valuation market environment. By shunning more than 90% of stocks on a quantitative basis, then eliminating more than 90% of the remaining survivors on a qualitative basis, we believe we have constructed a portfolio that will stand out more than basketball star LeBron James attending one of my mother’s kindergarten classes.

Summary of Q4 13 activity:

Q4 Sales: Heidrick & Struggles, Global Payment Networks, Google, Questcor Pharmaceuticals

Heidrick & Struggles (NASDAQ: HSII)
We initiated HSII in November of 2012 at an average price of $12.49 and we sold in November 2013 at an average of $17.67, a 41.5% gain in twelve months compared to about a 30% gain in the S&P 500 TR in the same time period. Our dual thesis on HSII boiled down to “it’s cheap” and “the business will get better.” The 40% run-up in stock price eliminated the cheapness from the valuation, but unfortunately, the business did not get materially better, so our process forced us to sell. It is entirely possible 2014 will be a great year for Hedrick & Struggles the business, but the risk at this valuation is to the downside for the stock.

Google (NASDAQ: GOOG)

We purchased Google on May 27, 2010 at $487 and again on June 30, 2010 at $445. At the time, Apple was king, and the whispers of Apple entering the search market were enough to drive Google down to 9x current year EBITDA. This valuation is usually reserved for average quality businesses with average growth rates. Google is quite possibly the greatest business on earth, and in recent years the company has grown EBITDA faster than most S&P 500 companies at around 20% annualized. The competitive advantage of Google is tested – Microsoft spent millions attempting to steal market share in search without success. After our purchase, Google continued to grow earnings, but investors woke up to its quality and growth rate and assigned a 15x next year's EBITDA multiple. This is an extremely healthy multiple, and although Google's quality is still unparalleled, we believe the volatility of the stock market and management's subpar capital allocation makes Google a sell. Frank Value Fund shareholders made 115% and 136% on Google purchases compared to about 88.5% in the S&P over the same time period.

Q4 Purchases: Performant Financial, Vera Bradley, Vitamin Shoppe

Performant Financial (NASDAQ: PFMT)

Performant Financial, a company that aids the US government in collecting on defaulted assets, checks the boxes for silly reasons why institutional investors and other asset managers avoid this great opportunity. PFMT has a short public trading history, sub $1 billion market capitalization, and uncertain timing of government contract renewals. Though there are few competitors within Performant's niche and the target market grows no matter what the economy does, investors would rather wait to see if and when PFMT wins contract renewal. According to our research, the stock is so cheap, should they lose one of their lucrative government contracts, we believe we are still buying PFMT at a discount to its long-term earning power.

Vera Bradley (NASDAQ: VRA)

Like many retailers, Vera Bradley suffered in the "retailer bear market" in August to October of this year. Consumers are still under pressure, and retailers must discount significantly or lose sales. Most retailers are cheap, but the Frank Value Fund has the ability to buy a smaller company with growth prospects. Vera Bradley has significant expansion opportunities for their company-owned store concept. This sub $1 billion company is 62% owned by the founders and current management, leaving little room for a larger asset manager to take a concentrated position. The Frank Value Fund had no problem buying VRA while the short term results were suffering and investors were selling. We have the patience to hold while management right-sizes their product offering and continues to expand the store base.

Thank you for your investments, we wish you a prosperous 2014.

Very truly yours,
Brian Frank
Frank Value Fund Lead Portfolio Manager

Performance as of 12/31/13	Average Annualized Total Returns					Total Return
	1 Yr. %	**3 Yr. %**	**5 Yr. %**	**7 Yr. %**	**Since 7/21/04 %**	**Since 7/21/04 %**
Investor Class (FRNKX)	40.85	18.37	22.32	8.51	9.43	134.25
Class C (FNKCX)	39.89	17.53	21.57*	7.76*	8.68*	
Institutional Class (FNKIX)	41.32	18.63	22.57*	8.76*	9.68*	
S&P 500 Total Return	32.39	16.16	17.93	6.13	7.82	103.78

* Represents an estimate based on the performance of the fund's oldest share class, adjusted for fees.

Please see our website for distribution information: www.frankfunds.com/distribution-history. Performance data quoted represents past performance and does not guarantee future results. The investment return and principal value of an investment will fluctuate so that an investor's shares, when redeemed, may be worth more or less than their original cost. Current performance may be lower or higher than the performance data quoted. You may obtain performance data current to the most recent month-end by calling the Fund at 1-800-869-1679 or visiting our website at www.frankfunds.com. Returns include reinvestment of any dividends and capital gain distributions.

Non-FDIC insured. May lose value. No bank guarantee. The Fund's investment objectives, risks, charges and expenses must be considered carefully before investing. The prospectus contains this and other important information about the Fund, and it may be obtained by calling 1-800-869-1679. Please read it carefully before you invest or send money.

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